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Coddling exchange rate backfires

‘It took us 15–20 years to build a competitive interbank market, which we have destroyed by managing the exchange rate’

By Nasir Jamal

DRIVEN by a growing trade deficit, Pakistan’s current account has widened rapidly in recent months, which has raised concerns over the sustainability of the country’s external position going forward. As imports continue to fast outpace stagnant exports significantly, the pressure is mounting on the home currency.

The State Bank appears cognisant of the situation and has tightened restrictions on individual dollar purchases from the open market. Yet, the widening imbalance — in spite of robust remittances keeping the market liquid — has strengthened market expectations that the rupee would eventually have to adjust, the central bank’s efforts to maintain stability through administrative and monetary measures notwithstanding.

In this context, the sharp slide of the Indian rupee in recent months is proving to be an important external anchor, sharpening focus on regional competitiveness and heightening worries that Pakistan’s currency may be becoming overvalued.

> The Indian currency is down by 4.3pc versus the dollar this year, sliding by 0.9pc on Friday to a lifetime low of 89.48

India’s rupee has struggled for three months since high US tariffs — among the steepest on any Asian nation — on Indian exports took effect in late August. Even as the country’s economic fundamentals remain resilient and equity markets hover near record highs, the tariffs have pushed India’s merchandise trade deficit to a record level, with exports to the US down nine per cent year-on-year.

The Indian currency is down by 4.3pc versus the dollar this year, sliding by 0.9pc on Friday to a lifetime low of 89.48, surpassing the previous record low of 88.8 in September, as the Reserve Bank of India pulled back its support for the currency.

Pakistani exporters are now increasingly anxious about currency devaluation, arguing that it is necessary to maintain their competitiveness in international markets. To support their argument for currency devaluation, many insist that they risk losing market share unless the rupee also finds a lower equilibrium, with India allowing its currency to weaken.

Pakistan’s current account deficit has widened to $733 million in the first four months of the current financial year, nearly 3.5 times higher than the $206m deficit recorded in the same period last year, according to the latest balance of payments data from the SBP. The pressure on the current account is coming directly from rising imports as the central bank relaxed curbs under the International Monetary Fund directives and growth quickens. Exports continue to stagnate because of a variety of reasons, including but not limited to what exporters term a “managed exchange rate”.

Imports have surged 10 per cent to $24.92 billion in 4MFY26 from $22.65bn in 4MFY25, while exports increased 4.8pc to $13.66bn compared to $13.04bn a year ago. Consequently, the trade deficit in goods and services has expanded to $11.26bn from $9.61bn a year ago.

That the current account gap continues to widen in spite of robust growth in workers’ remittances, which increased 9.3pc to $12.96bn in 4MFY26 from $11.85bn during the same period last year, underscores that this trend could intensify going forward unless imports are restricted and exports pushed. A further deterioration in the fragile external sector would bring more pressure on the rupee.

More curbs on imports are likely to fetch severe public criticism, as the government is already blamed for failing to boost economic growth over the last three years. Many argue that the government has deliberately cut GDP growth to keep the current account under control. The government achieved a surplus of $1.9bn last year, but growth stagnated at 3pc.

The recent trajectory of the current account underscores how vulnerable

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How to hunt a duck curve

Changing the tariff structure could allow an equilibrium price that mimics the actual demand-supply situation rather than one assumed in a silo somewhere

By Ammar H Khan

THERE has been a solar revolution in Pakistan, driven by lower solar panel prices and rising grid tariffs, creating a perfect recipe for a surge in solar additions.

There have been two types of additions: net-metered and behind-the-meter. Net-metered additions are connected to the grid, in which the grid buys electricity from such customers at a price well above the prevailing marginal cost. Meanwhile, behind-the-meter refers to adding solar without grid connectivity. The emergence of both types has led to more than 25 GW of solar capacity available in the country, and this is expected to increase further.

Due to such additions, Pakistan’s load curve has started to look very different from what our tariff design assumes, which is still stuck in the last century. As the sun rises, solar capacity kicks in from 7am to 3pm, reducing grid demand. It is during this same interval that the grid buys surplus electricity from net-metered customers, while the marginal price is at its lowest.

Surplus supply during daylight hours reduces the marginal price of electricity. But due to a rigid and impractical tariff regime, the benefits cannot be captured, and a lower marginal price can not be passed on to consumers.

Behind-the-metre solar and batteries are eating into daytime demand, and the existing cost-plus tariff is not designed to address it. The current tariff structure effectively divides all variable and fixed electricity costs across an assumed number of demand levels. This may have worked when there was no decentralised electricity generation, only till a few years back, but it does not work for an environment where decentralised generation continues to increase its share of the generation pie.

It is important to pivot quickly to a subscription-style pricing model, where customers pay primarily for capacity and network, not just for units consumed, in the absence of which the system will keep raising tariffs for a shrinking base of kilowatt-hour (kWh) sales.

Such sales will continue to contract as the share of decentralised generation increases, making the grid less tenable for all consumers and further accelerating migration from the grid. That is a recipe for faster grid defection, more behind-the-meter investment, and a larger circular debt stock.

The grid is increasingly full at night and in the evening, but hollowed out in the middle of the day. That valley during the middle of the day is a classic “duck curve”, which entails high demand at the shoulders of the day, a pronounced dip when solar is strongest, and then a steep evening ramp when solar output collapses and everyone turns lights, motors and air-conditioners back on. The system is paying for capacity it cannot use in the middle of the day, and then scrambling to recover fixed costs from fewer units sold.

On the storage side, lithium-battery import data suggests that by mid-2025, Pakistan will already be sitting on roughly 18 GWh of stationary energy storage. As battery prices continue to decline, battery storage is expected to reach more than 75 GWh by 2028, further risking defection from the grid.

Consumers do not need to completely move away from the grid; every minute or kWh they use either decentralised generation or a battery is a minute or kWh taken away from the grid, which means lower grid utilisation and, inadvertently, higher prices for everyone else. It is important to look at things at the margin here, to identify the inflection point, rather than using a simple average that masks distortions.

Based on current trends, we will soon have the technical ability to mobilise 7–15 GW of flexible, distributed capacity for two hours during peak times, if even a fraction of these batteries are aggregated and dispatched as part of micro-grids or virtual power plants.

If tariff design does not respond, the load curve will become more extreme, resulting in deeper midday troughs, sharper evening ramps, and progressively lower utilisation of grid-supplied energy per rupee of fixed cost locked into the system.

The existing tariff philosophy still behaves as if fixed and variable costs are recovered primarily through per-kWh charges. Total power payments are estimated at Rs3.5 trillion, of which the power purchase price is about Rs3.1tr. Within this, capacity charges alone are roughly Rs1.8tr, just over half of the entire system’s revenue requirement. These are obligations Pakistan must pay, whether grid sales are 120 terawatt-hour (TWh) or 90 TWh.

Dividing this over a lower denominator spells disaster for all consumers, or even taxpayers in the process, since any policy disaster is eventually funded by the taxpayer, either through higher taxes, or by the population, through higher inflation.

Instead of recovering capacity, network and social-policy costs inside an opaque energy rate, the tariff must be unbundled into three transparent components.

Firstly, a capacity subscription (CS), which refers to a fixed rupee-per-kWh monthly charge that recovers generation capacity costs. Secondly, a network charge (NC), which can be a fixed rupee-per-kWh per month that recovers transmission and distribution costs. And lastly, an energy charge,

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Why illiteracy cannot be used to control farm workers

Given rapid technological advances, Pakistan’s elite must recognise that old coercive forms of control can no longer work

FOR decades, Pakistan’s landed aristocracy has been portrayed as cruel, merciless, and oppressive toward their employees, tenants, sharecroppers, and village-based service providers. Countless novels, films, and TV dramas have drawn on this theme. Over time, this stereotype has taken deep root in the national psyche and left a lasting negative image in the public perception.

Certainly, many large landlords have engaged in such malpractices. However, one school of thought argues that, for them, such behaviour is more a necessity than a choice in managing their vast holdings — in effect, a distinctive form of a

By Khalid Saeed Wattoo and Dr Waqar Ahmad

‘management control system’ (MCS).

Organisations and businesses worldwide use various MCSs to regulate day-to-day operations. The simplest and most common is close, real-time monitoring of employees by the owner or manager. This hands-on oversight enables them to observe performance directly, provide immediate feedback, and ensure tasks are carried out in accordance with established procedures and standards.

Though effective in small setups, such MCSs fail on large, unfenced farms spanning hundreds of acres, where individual workers or tiny teams (two to three workers) operate out of sight, especially in tall crops like maize or sugarcane, where visibility is limited to a few feet only. Supervisors can be employed to monitor on-site, yet hiring dozens to supervise scattered workers across the farm makes this option uneconomical. Worse still, it risks collusion between supervisor and workers, creating the absurd need for yet another supervisor to monitor the first one.

Another widely used MCS is based on an input-output linkage, where specific inputs correspond to expected outputs. For instance, in garment factories, industry-wide standards clearly define how much fabric yields a given number of shirts. Similarly, well-established benchmarks exist for worker productivity, electricity consumption, and other consumables.

However, agriculture operates outside predictable boundaries.

Uncontrollable weather variables — rainfall, temperature, sunlight, windstorm, and frost — directly affect crop yields. The equation is not as straightforward as “a certain amount of fertiliser, pesticide, and water equals a certain yield”. Consequently, workers’ theft of input or negligence can conveniently be explained away as the result of unfavourable weather. Moreover, crop harvest occurs several months after inputs are applied.

In some professions, like medicine and education, ethics and moral values are instilled during training as an intrinsic MCS. In our society, doctors are seen as maseehas (healers), embodying the Qur’anic principle: saving one life is like saving all of mankind. Similarly, teachers have traditionally been revered as spiritual parents, and their role regarded as prophetic.

Such moral grounding is vital because, unlike quantity, the quality of their work cannot be mechanically measured. Teachers may attend classes punctually, yet only they know whether they are truly giving their best.

However, agriculture stands apart: most workers are illiterate or ill-educated. Expecting them to be guided by ethics and moral values alone is therefore unrealistic.

Given the limitations of conventional MCSs and the highly labour-intensive nature of traditional farming, landlords historically developed a distinctive, often brutal, system of control rooted in fear and coercion. Workers lived under constant threat of severe, extra-legal punishment for misconduct, which could be extended to their families, including women. This reign of terror, though unjust, undeniably proved a highly effective MCS.

Nevertheless, the continued dominance of this tyrannical MCS rests on two conditions. First, landlords must maintain influence over the local police and administration, which they usually secure through political clout and authority.

Second, rural youth must be kept illiterate to confine them to unskilled farm work, thereby ensuring a steady supply of cheap labour. Illiteracy also leaves them ignorant of their legal rights and turns them into captive voters, who follow elders’ dictates.

This explains why school education has long been suppressed in rural areas. According to the latest available data, Pakistan has 26 million out-of-school children, nearly 38 per cent of the school-age population as of 2021. The actual figure is likely higher, as many schools inflate enrolment records to meet official targets. Moreover, a large number of ghost schools still exist.

On the other hand, the agriculture sector is undergoing rapid transformation. Mechanisation and automation are reshaping almost all farming operations, reducing the need for manual labour.

Centralised fertigation systems now apply fertilisers from a single control point. Drones — already used in Pakistan — spray pesticides over fields. GPS trackers now monitor tractors and other machinery along with their fuel consumption. These technologies enable large farms to operate like modern corporate enterprises with a small, efficient workforce. However, this evolution is making agricultural jobs more specialised and technically demanding.

Furthermore, the use of high-yielding hybrid and genetically modified seeds, such as Bt cotton, which involves complex production technology, is rising. Moreover, importing countries are imposing stricter food safety standards on agricultural exports.

Finally, shrinking landholdings are putting immense pressure on farmers to maximise productivity, especially at a time when government subsidies and support prices are being phased out.

Given this rapidly evolving landscape, Pakistan’s agricultural elite must recognise that the old, coercive MCS would no longer be workable in the future. For long-term competitiveness and survival, large farms now need to be managed along the same management principles as any other business by relying on educated, skilled, and highly productive workers.

However, such a workforce cannot develop without the elite’s unwavering commitment to expanding quality education and skills development in rural areas. ■

Khalid Wattoo is a development professional and a farmer, and Dr Waqar Ahmad is a former associate professor at the University of Agriculture, Faisalabad

The Week...

The Competition Commission of Pakistan issues show-cause notices to 17 major private schools for allegedly compelling parents to buy expensive, branded supplies from school-authorised vendors

State Bank’s foreign exchange reserves rise by $27m to **$14.55bn** during the week ending on Nov 14

Pakistan loses approximately **$600m** to illegal crypto currencies as people purchase dollars from exchange companies and route them into crypto via unlawful channels

Talks to finalise a bilateral investment treaty between Australia and Pakistan are set to continue as the Islamabad round of deliberations end with both countries looking to explore the energy, mining, technology, industrial and agriculture sector development

The Asian Development Bank approves loans totalling **$330m** to Pakistan for the country’s Second Power Transmission Strengthening Project

Large-Scale Manufacturing grows **2.69pc** year-on-year in September, indicating a possible recovery in the country’s industrial production

The government agrees to publish asset declarations of high-level public officials in 2026 to improve the country’s accountability and integrity standards against widespread corruption

Foreign loan inflows increase by over 33pc to $2.293bn in the first four months of 2025-26